5. Ukraine: Monetary Statistics

Jaroslav Kučera*

Setting
5.1 Following the dissolution of the Soviet Union, Ukraine gained its independence in December 1991. On September 3, 1992, it became a member of the IMF. In May 1991 the National Bank of Ukraine (NBU) was established, replacing the State Bank (Gosbank) of the Soviet Union.

5.2 In 1991, the banking sector of Ukraine consisted of the NBU (functioning both as a central bank and a commercial bank), the Savings Bank (the only institution that accepted household deposits), and the Export-Import Bank for financing foreign trade operations. In 1992, commercial activities were separated from the central bank functions, and commercial banks emerged.

5.3 As in other countries of the former Soviet Union and centrally planned economies in eastern Europe, monetary data were limited to those on credits and deposits in national currencies. Allocation of credit to the economy had been centrally planned, and monetary data were used for determining how the plan was to be fulfilled. Thus, data on credits and deposits were classified by purpose, maturity, and debtor/creditor branch (ministry) of the economy. However, data on banking operations in foreign currencies and detailed balance sheets of banking institutions were considered top secret and therefore not used for compiling money statistics.

5.4 Other types of financial instruments had not been used, a sectoral breakdown of domestic institutions was unavailable, and the concept of residency was unknown. The monetary data had been compiled on mainframe computers, and personal computers were unavailable to the NBU staff. The NBU’s staff were unfamiliar with compiling monetary statistics in accordance with international standards.

Statistical Capacity, Technical Assistance, and Institutional Issues
Stage One: Fact Finding and Outlining the Plan
5.5 The IMF’s TA to Ukraine in 1992 identified problems and initiated the compilation of monetary statistics using the analytical framework that the IMF developed for the countries of the former Soviet Union. The first step in the action plan was to establish a system for collecting accounting data from all banking institutions for compiling monetary statistics on a monthly basis. A significant challenge was collecting monthly data from the Savings Bank, which previously had supplied only quarterly data. An NBU unit responsible for compiling monetary statistics was identified; its staff was trained during the missions, as well as in subsequent IMF courses on money and banking statistics.

5.6 To introduce and apply international methodology to Ukrainian monetary statistics, it was necessary to begin by examining the existing methodology and plan of accounts to see how these data sources could be adapted. The first set of monetary statistics that broadly accorded with international methodology (developed by the NBU staff working with IMF staff) used the existing accounting data. The NBU and all other banking institutions in Ukraine used a unified plan of accounts, based on the former Gosbank accounting plan. At the outset, it was necessary to study this accounting plan (consisting of about 1,000 three-digit accounts) and map its components to the monetary statistics categories. Since this accounting plan did not provide all the necessary data for compiling monetary aggregates, some data had to be estimated. In particular, most accounts denominated in foreign currencies, even when they belonged to residents of Ukraine, were classified...
as positions with nonresidents. These shortcomings complicated the accurate determination of the external position of the banking system.

5.7 The TA missions provided guidance on the consolidation of banking system accounts into a monetary survey. The missions also made recommendations to modify the plan of accounts so that banks could compile data in accordance with the residency of the account holder, rather than on the basis of the currency in which the account was denominated. On this basis, it was expected that the authorities would be able to begin compiling monetary statistics in accordance with the framework established by the TA missions and that they could start reporting to the IMF on a regular monthly basis.

Stage Two

Implementation of initial recommendations and further steps to improve monetary statistics

5.8 The IMF mission in late 1993 found that the initial recommendations had not been implemented. In particular, the separation of resident and nonresident accounts had not been completed. Improving the data had been hampered by lack of cooperation among the three departments involved in collecting and compiling monetary statistics (the Accounting, Monetary Policy, and Economic Analysis and Statistics Departments) and by insufficient monitoring of the accounting changes that were crucial to the analytical framework for the compilation of monetary statistics.

5.9 Owing to a lack of coordination within the NBU, confusion arose over how to establish the official monetary statistics for Ukraine. Different monetary statistics were compiled by the Economic Analysis and Statistics Department and the Monetary Policy Department. The Economic Analysis and Statistics Department compiled monetary statistics according to the analytical framework developed by IMF TA missions. However, it had not been able to adjust the framework, because new accounts were continuously being created by the Accounting Department. In addition, there was a problem with the proper distinction between on–and off–balance sheet items, with a portion of international reserves being recorded as off–balance sheet accounts.

5.10 Responding to an urgent need for monetary statistics for financial programming purposes, the Monetary Policy Department developed procedures for compiling monetary statistics that were sufficient for initial monitoring of the economy in Ukraine. However, the Monetary Policy Department’s methodology for compiling the data differed in many respects from the internationally accepted methodology. In particular, (i) foreign currency deposits of residents were included in foreign liabilities, (ii) insurance premiums were classified as broad money, and (iii) local government and pension fund deposits were classified as money, even though local governments and pension funds were not independent and obtained financing resources mainly through redistributions and transfers from the central government.

5.11 TA missions during 1994 and 1995 aided the authorities in revising the analytical framework so that more detailed monetary statistics could be based on three-digit accounts. As a result, staff of the NBU became more familiar with the classifications (by economic sector and liquidity) underlying the analytical framework. To strengthen communication among departments involved, a working group for compiling and monitoring monetary statistics was formed in response to mission recommendations.

5.12 Because of frequent changes in the plan of accounts, missions recommended that the NBU provide extensive training and assistance to commercial banks to ensure the proper introduction and classification of new accounts. They suggested that this assistance be provided through training seminars for commercial bank staff, NBU staff visits to major Ukrainian banks, and written instructions for introducing the new accounting codes prepared by the NBU’s Accounting Department.

5.13 It was also recommended that the NBU compile only one monetary survey, which would be based on a proposed analytical framework that would be refined over time. The single set of official monetary statistics to be produced by the NBU’s Economic Analysis and Statistics Department would aim at promoting meaningful interpretation of economic developments in Ukraine, as well as fostering the future publication of monetary statistics.

Substantial progress

5.14 The monetary and banking statistics mission in February 1997 concluded that the NBU had made substantial progress over the previous four years in developing the capability to compile and publish monetary
statistics in accordance with international standards. This progress reflected the strong commitment to this work by the senior management of the NBU and a high degree of cooperation between the NBU staff and the IMF’s TA missions. It also reflected the dedication and expanding skills of the staff of the Economic Department (successor of the Economic Analysis and Statistics Department), which maintained effective quality control over the monetary statistics.

5.15 Even though staff still compiled two sets of monetary data, TA in monetary statistics narrowed the gap between the two data sets, bringing each set closer to the IMF’s methodology. It remained for both departments to coordinate and harmonize their work on monetary statistics with a view to producing a single set of monetary statistics that would fully conform with the IMF’s methodology.

5.16 Other achievements included the introduction of new accounts to separately identify banks’ nonresident positions and thereby improve the sectorization of residents’ accounts; computerization of the interbank settlements system; streamlining of the NBU’s procedures for recording foreign exchange transactions; and changes in banks’ accounting procedures to reduce asymmetries in the interbank accounts.

5.17 The improvements in Ukraine’s monetary statistics were essential for the creation of a Ukraine page in the IMF’s International Financial Statistics (IFS), which was introduced in July 1996. Thereafter, the reporting of monetary data to the IMF by the Economic Department became reliable and timely.

### Stage Three

#### New plans of accounts

5.18 The blueprint for developing the new plans of accounts for the central bank and other banking institutions was initiated in 1993, in cooperation with the World Bank. This approach was fully supported by the IMF’s TA missions, which emphasized that the ability to obtain more meaningful analytical data would be limited unless new plans of accounts for the central bank and other depository corporations were implemented. The new plans of accounts were to contain the classification of financial instruments by economic sector and liquidity, which was needed for compiling reliable analytical accounts to support the policy needs of the NBU. In particular, the TA missions emphasized that new plans of accounts should disaggregate accounts by residency, instrument, economic sector, and liquidity category.

5.19 The authorities had planned to introduce the new plans of accounts without a formal transition period. The IMF’s TA missions suggested, however, that the accounting reform should contain a transition period during which banks would use both the old and new charts of accounts. If the old charts of accounts were abandoned without a transition period, the introduction of the new plans of accounts would expose the Ukrainian banking system to unnecessary risks. Only with a transition period would it be possible to ensure continuity in the monetary data and to verify the consistency of the monetary statistics derived from the old and new plans of accounts. Also, potential disruption in the flow of monetary data could result from a switch to the new accounting system that was only partially successful.

5.20 The TA mission in 1997 reviewed the ongoing work on the design of the new plans of accounts and new reporting forms. The main conclusion was that the latest drafts of the new charts of accounts would make it possible to derive the monetary statistics directly from the balance sheets of banks (as was the case when the old accounting plan had been used). Thus, the monetary statistics would continue to be derived from a fully integrated set of accounts for which the reliability of the accounting data could be monitored.

5.21 The new plans of accounts for the NBU and commercial banks were introduced successfully in January 1998, followed by a short transition period. Even though monetary data were not reported to the IMF for a few months, the staff of the NBU were able to prepare a conversion to the new compilation framework on their own.

5.22 The new plans of accounts provided international accounting guidelines to Ukrainian banks, to ensure that the monetary data would be compiled in accordance with international standards. This applied in particular to the accounting and the monetary statistics methodology to include accrued interest in the underlying monetary aggregates.

**Improvements in the framework for the compilation of monetary data based on new plans of accounts**

5.23 TA provided by the IMF from 1999 to 2001 initially concentrated on reviewing in detail the new
framework for the compilation of monetary statistics and recommending improving data quality by compiling monetary statistics directly from accounting records. Improvements in monetary statistics were also achieved by resolving the most important outstanding methodological issues relating to monetary aggregates. Later, TA was provided to implement the IMF’s Monetary and Financial Statistics Manual (MFSM).

5.24 In general, it was confirmed that procedures for compiling monetary statistics, based on the new plans of accounts, were broadly in accordance with international accounting guidelines. These procedures were based largely on balance sheet data of the NBU and commercial banks, but supplementary data were still needed for proper sectorization of bank loans, securities holdings, and deposit liabilities.

5.25 Detailed analysis of the data and compilation procedures revealed that even though staff were compiling the monetary data in accordance with international accounting guidelines, shortcomings in the composition of some monetary aggregates persisted. Accordingly, TA recommendations included introducing additional accounts within the plans of accounts of the NBU and commercial banks, thereby further facilitating the compilation of monetary statistics directly from accounting records. These recommendations primarily dealt with the compilation of foreign assets, international reserves, and claims on the central and local governments. To improve the quality and reliability of monetary data, it was also recommended that the NBU’s and commercial banks’ accounting data should be regularly analyzed from the perspective of meeting the needs of the monetary statistics.

5.26 These efforts contributed to the formulation and monitoring of economic policy by providing timely and frequent data on the banking sector’s activity with individual sectors of the domestic economy (in particular, with the government sector) and nonresidents. To improve the analytical quality of the monetary data compiled by the NBU, the IMF recommended several changes in methodology, the most important of which were (i) expanded institutional coverage to include all financial institutions that accept deposits or issue other liabilities viewed as deposit substitutes and (ii) the proper treatment of (a) Ukrainian bank branches operating abroad, (b) data on banks with revoked licenses, (c) classification of certificates of deposits issued by the NBU and commercial banks, (d) classification of local government deposits, (e) classification of accounts of the banks’ employees, and (f) treatment of shares and equity.

5.27 Most of the recommendations on methodology were implemented, and in the process the hands-on TA and on-the-job training contributed significantly to the NBU staff’s understanding of monetary statistics methodology. Overall, the implemented recommendations on methodological issues have greatly improved the quality of Ukrainian monetary statistics.

5.28 TA in 2002 concentrated on the implementation of the MFSM. TA missions conducted seminars for the NBU staff and held discussions with individual staff members of the Economic Department concerning the MFSM chapters dealing with sectorization of the economy, classification of financial instruments, and compilation of monetary aggregates. Issues concerning the adaptation of the IFS to the MFSM methodology have also been discussed. It was concluded that close cooperation of the Economic Department and other NBU units is necessary to introduce the system for collecting accounting data from commercial banks and, possibly, all other financial institutions if the reported data are to be consistent with the methodology in the MFSM. The IMF mission in April 2002 also suggested that the authorities establish a plan for implementing all of the recommendations of the MFSM.

Conclusions and Lessons Learned

5.29 During the past 10 years, the IMF’s TA to Ukraine achieved most of the objectives agreed with the authorities, notwithstanding the hope that the results might be achieved in a shorter period. However, these hopes had to be tempered by the realization that fundamental reforms were needed in both the banking system and the rest of the economy. In addition, the culture of the NBU had to evolve during the 1990s in a way that supported a more proactive environment of initiating and implementing reforms.

5.30 Rapid progress in the development of monetary statistics was hampered by cumbersome administrative procedures, as well as by frequent changes in the staff involved in compiling monetary data. For example, the IMF mission in February–March 2000 found that all previous staff of the Monetary and Banking Statistics Division of the NBU—the unit responsible for compiling the analytical accounts of the monetary authorities and the commercial banks—had retired as a result of the Law on Public Service and the presi-
5.31 Cooperation and coordination were essential for improving monetary statistics. The strong leadership of NBU management, a high degree of interaction with IMF TA missions, and the dedication of compilers of monetary statistics gradually improved the working environment and the cooperation of all parties involved in collecting and compiling monetary statistics.

5.32 Through interactions with IMF missions, the NBU has made the two sets of monetary statistics almost identical. Actions were undertaken to introduce an integrated monetary database for Ukraine, wherein staff would compile and report a single set of monetary statistics to the IMF. The single set of monetary statistics will be used also for official publication within Ukraine and for the NBU’s conduct of monetary policy.

5.33 A consistent and sustained strategy of IMF TA over a medium- to long-term period contributed to developing monetary statistics in Ukraine in accordance with international standards. Regardless of initial problems and difficulties in cooperation among NBU units, it was important that the IMF continuously provide TA and train staff in monetary statistics methodology. The fact that the IMF was the major TA provider in monetary statistics and hence did not generally need to coordinate with other donors simplified issues and avoided the confusion that sometimes arises when many donors are involved in the same sector. One area of coordination that was necessary and that went smoothly was ensuring that the World Bank advisors incorporated in the new plan of accounts the classifications and sectorizations needed for compiling monetary statistics directly from accounting records.

5.34 Proper legislation and adequate budgetary and human resources have also been positive factors facilitating progress in the development and improvement of monetary data. In the early stages of development, the obligatory reporting culture applicable in the former Soviet Union overcame possible problems in the collection of data. The current law for the NBU entitles it to obtain all necessary information required for the compilation.

5.35 Over the past decade, monetary statistics in Ukraine have improved significantly. On January 10, 2003, Ukraine became the fifty-second subscriber to the Special Data Dissemination Standard (SDDS) and the first among the Commonwealth of Independent States. Subscription to the SDDS represented an important milestone in the decade-long refinement of Ukraine’s monetary and other macroeconomic statistics.